

# ANNUAL REPORT



# A.I.S. RESOURCES LIMITED





# A.I.S. RESOURCES LIMITED

2150, 250 – 6<sup>th</sup> Avenue S.W.  
Calgary, Alberta, Canada T2P 3H7

Telephone: 403-237-7766 / Fax: 403-237-6027

## Report to the Shareholders Fiscal 2001

3 May 2002

Dear Shareholders:

During the fiscal year 2001, AIS Resources Limited continued to be active in the Oil and Gas Extraction sector. The Company's Tier 2 listing with the TSX Venture Exchange (formerly the Canadian Venture Exchange – "CDNX") continues to be active.

Approximately fifty thousand dollars (\$50,000) was committed by the Company in Oil and Gas drilling and infrastructure during the past fiscal year. The Corporation was successful in participating in three new Viking Gas Wells in the Provost Veteran Viking "C" South Unit operated by Apache Canada Ltd. AIS Resources Limited has a 5.3% interest in the Unit. All three new gas wells commenced production in January of 2002 and daily production for the Unit has increased from approximately 50 BOEs (Barrels of Oil Equivalent) per day to approximately 250 BOEs per day.

AIS Resources Limited continues to review a plethora of business plans and ideas in the sectors of; biotechnology, software, electronics, and other technology areas that might be incorporated into the active day-to-day business of the Corporation. So far, the management and the Board of Directors of AIS Resources Limited have not been able to find the type of opportunity that will result in an increase in Shareholder value. The Corporation remains confident that a dynamic business situation will be identified.

Loss for fiscal 2001 was \$547,860 or \$0.14 per share compared to a loss of \$1,045,897 or \$0.26 per share for the fiscal period 2000. The write-down of marketable securities of \$354,333 accounted for 65% of the loss for the current period. General and administrative expenses of \$241,893 represent a reduction from the 2000 fiscal year of \$490,213. There was also a substantial reduction in operating costs from \$28,661 in 2000 to \$12,109 in 2001. Revenues declined in 2001 as compared to 2000 from \$122,292 to \$60,475. This was due to lower Oil prices and reduced interest rates.

The Corporation continues to operate free of debt and has a working capital position of \$462,722.

Cordially,

Archie MacKinnon  
President



## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheet of A.I.S. Resources Limited as at December 31, 2001 and 2000 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

K P M G LLP

Chartered Accountants

Calgary, Canada

January 16, 2002

# A.I.S. RESOURCES LIMITED

## Balance Sheets

December 31, 2001 and 2000

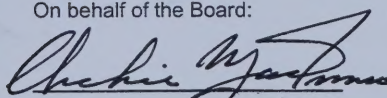
	2001	2000
<b>Assets</b>		
Current assets:		
Cash and short-term investments (note 2)	\$ 514,208	\$ 775,420
Accounts receivable	11,766	29,500
Prepaid expenses	5,688	3,949
Marketable securities (note 3)	—	6,045
	531,662	814,914
Marketable securities (note 3)	50,334	404,667
Capital assets (note 4)	27,913	752
Sale proceeds receivable	—	7,105
	\$ 609,909	\$ 1,227,438

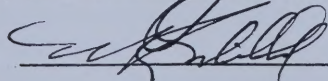
## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 68,940	\$ 138,609
Provision for future site restoration	22,459	22,459
Shareholders' equity:		
Share capital (note 5)	400,676	400,676
Contributed surplus	2,756,375	2,756,375
Deficit	(2,638,541)	(2,090,681)
	518,510	1,066,370
	\$ 609,909	\$ 1,227,438

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

# A.I.S. RESOURCES LIMITED

## Statements of Operations and Deficit

Years ended December 31, 2001 and 2000

	2001	2000
Revenue:		
Petroleum and natural gas (net of royalties)	\$ 38,746	\$ 52,771
Interest	21,492	69,521
Gain on sale of capital assets	237	—
	60,475	122,292
Expenses:		
Write-down of marketable securities (note 3)	354,333	327,859
General and administrative	241,893	490,213
Operating	12,109	28,661
Future site restoration	—	—
Write-down of capital assets (note 4)	—	321,134
Depreciation	—	322
	608,335	1,168,189
Net loss before income taxes	(547,860)	(1,045,897)
Deficit, beginning of year	(2,090,681)	(1,044,784)
Deficit, end of year	\$ (2,638,541)	\$ (2,090,681)
Loss per share	\$ (0.14)	\$ (0.26)

See accompanying notes to financial statements.



# A.I.S. RESOURCES LIMITED

## Statements of Cash Flows

Years ended December 31, 2001 and 2000

	2001	2000
Cash provided by (used in):		
Operations:		
Net loss	\$ (547,860)	\$(1,045,897)
Items not affecting cash:		
Write-down of marketable securities	354,333	327,858
Gain on sale of capital assets	(237)	—
Write-down of capital assets	—	321,134
Depreciation	—	322
	(193,764)	(396,583)
Change in non-cash working capital (note 7)	(46,569)	100,668
	(240,333)	(295,915)
Investing:		
Purchase of capital assets (note 4)	(27,913)	(322,208)
Proceeds from sale of marketable securities	6,045	—
Proceeds on sale of capital assets	989	—
Acquisition of marketable securities	—	(232,526)
	(20,879)	(554,734)
Decrease in cash position	(261,212)	(850,649)
Cash position, beginning of year	775,420	1,626,069
Cash position, end of year	\$ 514,208	\$ 775,420

Cash position consists of cash and short-term investments.

See accompanying notes to financial statements.

# A.I.S. RESOURCES LIMITED

Notes to Financial Statements

Years ended December 31, 2001 and 2000

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## General

A.I.S. Resources Limited (the "Company") was incorporated under the laws of Bahamas Islands. The Company participates in oil and gas properties in Western Canada and holds various investments in Canada.

### 1. Significant accounting policies:

#### (a) Capital assets:

The Company uses the full-cost method of accounting for petroleum and natural gas operations and, accordingly, capitalizes all exploration and development costs. These costs include land acquisition, geological and geophysical costs, drilling (including related overhead) on producing and non-producing properties and other carrying charges on unproven properties. Proceeds of disposition are applied against the cost pools with no gain or loss recognized except where the disposition results in a change in the rate of depletion and depreciation of 20% or more.

The cost of significant unevaluated properties are excluded from the depletion and depreciation base. The carrying value is limited to the recoverable amount as determined by estimating the present value of future net revenues from proven properties based on current prices and costs and the value of unproven properties at the lower of cost and net realizable value less general and administrative expenses, estimated development and future site restoration costs, financing costs and income taxes. Amortization of these costs is calculated on the unit-of-production method based on estimated proven reserves, before royalties, as determined by independent engineers. For purposes of depletion and depreciation calculations, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

#### (b) Joint ventures:

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

#### (c) Provision for future site restoration:

The Company estimates its future site restoration and abandonment costs for its oil and gas properties. The costs represent management's best estimate of the future restoration and abandonment costs based upon current legislation and industry practices. Total estimated costs are being provided for on a unit-of-production basis. The annual provision is included in amortization expense and actual site restoration costs are charged to the provision as incurred.



# A.I.S. RESOURCES LIMITED

Notes to Financial Statements, Page 2

Years ended December 31, 2001 and 2000

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## 1. Significant accounting policies (continued):

### (c) Provision for future site restoration (continued):

The provision for future site restoration costs is recorded in the statement of operations and deficit and on the balance sheet as a long-term liability. At December 31, 2001, the total estimated future site restoration cost of \$22,459 has been fully provided for.

### (d) Marketable securities:

Marketable securities are carried at the lower of cost and market value.

### (e) Income taxes:

Income taxes are accounted for using the asset and liability method whereby future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the amounts reported in the financial statements and their respective tax bases. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs.

### (f) Measurement uncertainty:

The amounts recorded for depletion and depreciation of property, plant and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements from changes in such estimates in future periods could be significant.

### (g) Earnings (loss) per share:

Earnings (loss) per share is calculated using the weighted average number of shares outstanding during the year. Fully diluted earnings per share, where applicable, reflect the exercise of options and issuance of Common Shares for warrants as if issued at the later of the date of grant or the beginning of the year.

## 2. Short-term investments:

As at December 31, 2001, the Company had short-term investments of \$508,817 invested in money market funds.

# A.I.S. RESOURCES LIMITED

Notes to Financial Statements, Page 3

Years ended December 31, 2001 and 2000

## 3. Marketable securities:

During 2000, the Company purchased 300,000 shares of CCR Technologies Ltd. at \$0.78 per share for a total cost of \$232,526. At December 31, 2001, the investment was written down by \$190,525 to its fair market value of \$42,001.

In June 1999, the Company purchased 833,333 shares at \$.60 per share for a total investment of \$500,000, in Canop Worldwide ("Canop"), a publicly traded company on the Canadian Venture Exchange. At December 31, 2001, the investment was written down by \$491,667 to its fair market value of \$8,333.

## 4. Capital assets:

	Cost	Depreciation and depletion	2001 Net book value	2000 Net book value
Canada:				
Petroleum and natural gas properties	\$ 27,913	\$ -	\$ 27,913	\$ -
Office furniture and equipment	-	-	-	752
	\$ 27,913	\$ -	\$ 27,913	\$ 752

During 2000, the Company entered into an agreement with Canop to farm in to Canop's 80% interest in a Production Sharing Agreement in Tanzania. The agreement required the Company to drill and complete one well by January 31, 2001. The requirement was not met. Consequently, the expenditures incurred as of December 31, 2000 of \$321,434 were written off.

## 5. Share capital:

### (a) Authorized:

The authorized Common Shares of the Company is 3,157,050 and can be issued in any combination of Common and Preferred Shares up to 31,570,500 shares at \$0.10 par value.

### (b) Issued:

4,006,763 Common Shares were outstanding at December 31, 2001 and 2000.

### (c) Stock options:

The Company has a stock option plan under which directors, officers and employees are eligible to receive options to purchase common shares. At December 31, 2001 options to purchase 360,000 shares were outstanding at an exercise price of \$0.37. The options expire September 6, 2006.

# A.I.S. RESOURCES LIMITED

Notes to Financial Statements, Page 4

Years ended December 31, 2001 and 2000

## 6. Income taxes:

The provision for income taxes differs from the result which would have been obtained by applying the combined federal and provincial income tax rate of 42.1% to the Company's loss before income taxes. The difference relates to the following items:

	2001	2000
Expected income tax recovery	\$ (230,649)	\$ (446,400)
Increase (decrease) in income tax resulting from:		
Non-deductible crown payments	1,073	1,904
Resource allowance	—	1,719
Alberta Royalty Tax Credit	—	(486)
Non-deductible expenses	259	521
Change in valuation allowance	229,317	442,742
Effect of change in enacted tax rate	—	—
	\$ —	\$ —

The components of the Company's net future income tax asset at December 31, 2001 is as follows:

	2001
Future income tax assets:	
Petroleum and natural gas properties	\$ 150,690
Investments	143,601
Non-capital losses	381,336
Net capital losses	128,195
	803,822
Valuation allowance	(803,822)
Net future income tax asset	\$ —



# A.I.S. RESOURCES LIMITED

Notes to Financial Statements, Page 5

Years ended December 31, 2001 and 2000

## 6. Income taxes (continued):

As at December 31, 2001, there were approximately \$914,000 of non-capital losses available to reduce future taxable income. These losses expire as follows:

2002	\$ 25,920
2003	169,756
2005	34,968
2006	88,498
2007	390,968
2008	204,186
	<hr/>
	\$ 914,296

In addition, approximately \$609,000 of capital losses with no expiry date are available to apply against future capital gains.

The benefit of these losses has not been reflected in these financial statements.

## 7. Change in non-cash working capital:

	2001	2000
Accounts receivable	\$ 24,839	\$ (21,112)
Prepaid expenses	(1,739)	(3,949)
Accounts payable and accrued liabilities	(69,669)	125,729
	<hr/>	<hr/>
	\$ (46,569)	\$ 100,668

Cash receipts (payments) on account of interest and taxes are as follows:

	2001	2000
Interest received	\$ 21,492	\$ 69,521
Taxes recovered	\$ —	\$ —

## 8. Related party transactions:

For the year ended December 31, 2001, the Company recorded \$62,309 (2000 - \$40,114) in legal fees to firms of which a director and a former director are partners and \$130,362 (2000 - \$193,721) in management and consulting fees to companies owned by directors, officers and a major shareholder.

# A.I.S. RESOURCES LIMITED

Notes to Financial Statements, Page 6

Years ended December 31, 2001 and 2000

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## 9. Financial instruments:

The carrying value of cash and short-term investments, accounts receivable prepaid expenses and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

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2150, 250 - 6th Ave S.W.  
Calgary, AB, CANADA T2P 3H7  
Telephone: 403-237-7766/ Fax: 403-237-6027

December 31, 2001

## SCHEDULE B - Supplementary Information

### 1.a) General and Administrative

Consultants	\$132,696
Shareholder communications	18,482
Travel	2,868
Legal and accounting	70,544
Office expenses	22,374
Unrealized foreign exchange	<u>(5,071)</u>
	<u>\$241,893</u>

- b) Included in consulting fees is \$130,362 paid to companies owned by directors, officers and a major shareholder.

### 2.a) Summary of securities issued during the year: None

- b) Summary of options granted during the year:  
The Company has established a stock option plan, not to exceed 10% of the outstanding common shares or 400,676 shares.

The following options were granted on September 6, 2001 to the following Directors and Officers at \$0.37 per share:

Archie MacKinnon	200,000
Jon Stucky	50,000
D. Richard Skeith	50,000
William R. Miller	50,000
E. Lorraine Campbell	<u>10,000</u>
	<u>360,000</u>

The options are fully vested and have a term of five years.

### 3.a) Summary of share capital:

Authorized: The authorized capital of the Company is \$3,157,050 and can be issued in any combination of preferred and common shares at \$0.10 par value.

Issued and outstanding: 4,006,763 common shares - \$400,676

- b) Summary of options, warrants and convertible securities outstanding:  
See 2 b) for options outstanding. No warrants or convertible securities are outstanding.
- c) Total number of shares in escrow or subject to a pooling agreement:  
None



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2150, 250 - 6th Ave S.W.

Calgary, AB, CANADA T2P 3H7

Telephone: 403-237-7766/ Fax: 403-237-6027

d) List of directors:

Lady Edith L. Turnquest

D. Richard Skeith

Jon Stucky

Archie MacKinnon

William R. Miller

Officers:

Jon Stucky, Chairman

Archie MacKinnon, President

Lady Edith L. Turnquest, Secretary

E. Lorraine Campbell, Treasurer

## SCHEDULE C

### Management Discussion

Loss for fiscal 2001 was \$547,860 or \$0.14 per share compared to a loss of \$1,045,897 or \$0.26 per share for the fiscal period 2000. The write-down of marketable securities of \$354,333 accounted for 65% of the loss for the current period. General and administrative fees of \$241,893 represent a reduction from the 2000 fiscal year of \$490,213. There was also a substantial reduction in operating costs from \$28,661 in 2000 to \$12,109 in 2001. Revenues declined in 2001 as compared to 2000 from \$122,292 to \$60,475. This was due to lower Oil prices and reduced interest rates.

The Corporation continues to operate free of debt and has a working capital position of \$462,722.

## CORPORATE INFORMATION

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### Board of Directors

Lady Edith L. Turnquest,  
D. Richard Skeith  
Jon Stucky  
Archie MacKinnon  
William R. Miller

### Officers

Archie MacKinnon, President  
Lady Edith L. Turnquest, Secretary  
Jon Stucky, Chairman  
E. Lorraine Campbell, Treasurer

### Auditors

KPMG LLP  
1200, 205 - 5<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 4B9  
Canada

### Bankers

The Royal Bank  
335 - 8<sup>th</sup> Avenue S.W.  
Calgary, Alberta T1P 1C9  
Canada

### Lawyers

McCarthy Tétrault LLP  
Barristers & Solicitors  
3200, 421 - 7<sup>th</sup> Avenue, S.W.  
Calgary, Alberta T2P 4K9  
Canada

### Executive Office

2150, 250 - 6<sup>th</sup> Avenue, S.W.  
Calgary, Alberta T2P 3H7  
Canada  
Telephone: 403-237-7766  
Fax: 403-237-6027

### Head Office

DuPuch & Turnquest & Co.  
308 East Bay Street  
P.O. Box N-8181  
Nassau, The Bahamas

### Registrar and Transfer Agent

Valiant Trust Company  
510, 550 - 6 Avenue S.w.  
Calgary, Alberta T2P 0S2  
Canada

### Listed

The TSX Venture Exchange  
Trading Symbol: AIS